

**REPORT OF THE AUDIT OF THE  
BUTLER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



**MIKE HARMON  
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**EXECUTIVE SUMMARY**  
**AUDIT OF THE**  
**BUTLER COUNTY FISCAL COURT**

**June 30, 2014**

The Auditor of Public Accounts has completed the audit of the Butler County Fiscal Court for the fiscal year ended June 30, 2014.

We have issued an unmodified opinion, based on our audit, on the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Butler County, Kentucky.

**Financial Condition:**

The Butler County Fiscal Court had total receipts of \$5,242,574 and disbursements of \$4,704,039 in fiscal year 2014. This resulted in a total ending fund balance of \$2,943,262, which is an increase of \$707,750 from the prior year.

**Report Comments:**

2014-001    The Butler County Fiscal Court Has A Lack Of Segregation Of Duties Over Receipts  
2014-002    The Butler County Jail Has A Lack Of Segregation Of Duties Over Jail Commissary And Inmate Accounts

**Deposits:**

The fiscal court's deposits as of August 31, 2013, were exposed to custodial credit risk as follows:

- Uncollateralized and Uninsured    \$267,465

The fiscal court's deposits were covered by FDIC insurance and a properly executed collateral security agreement, but the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.



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**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Matthew G. Bevin, Governor  
William M. Landrum III, Secretary  
Finance and Administration Cabinet  
Honorable David Fields, Butler County Judge/Executive  
Members of the Butler County Fiscal Court

Independent Auditor's Report

**Report on the Financial Statement**

We have audited the accompanying Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of Butler County, Kentucky, for the year ended June 30, 2014, and the related notes to the financial statement.

**Management's Responsibility for the Financial Statement**

Management is responsible for the preparation and fair presentation of this financial statement in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. This includes determining that the regulatory basis of accounting is an acceptable basis for the preparation of the financial statement in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of a financial statement that is free from material misstatement, whether due to fraud or error.

**Auditor's Responsibility**

Our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.



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### **Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles**

As described more fully in Note 1, the financial statement is prepared by Butler County, Kentucky on the basis of the accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

### **Adverse Opinion on U.S. Generally Accepted Accounting Principles**

In our opinion, because of the significance of the matter discussed in the Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles paragraph, the financial statement referred to above does not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of Butler County, Kentucky as of June 30, 2014, or changes in financial position or cash flows thereof for the year then ended.

### **Opinion on Regulatory Basis of Accounting**

In our opinion, the financial statement referred to above presents fairly, in all material respects, the fund balances of Butler County, Kentucky as of June 30, 2014, and its cash receipts and disbursements, for the year then ended, in accordance with the accounting practices prescribed or permitted by the Department for Local Government described in Note 1.

### **Other Matters**

Our audit was conducted for the purpose of forming an opinion on the financial statement taken as a whole of Butler County, Kentucky. The budgetary comparison schedules and capital asset schedule are presented for purposes of additional analysis and are not a required part of the financial statement, however they are required to be presented in accordance with accounting practices prescribed or permitted by the Department for Local Government to demonstrate compliance with the Commonwealth of Kentucky's regulatory basis of accounting and budget laws. The budgetary comparison schedules and capital asset schedule, have been subjected to the auditing procedures applied in the audit of the financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statement or to the financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the budgetary comparison schedules and capital asset schedule, are fairly stated in all material respects in relation to the basic financial statement.



To the People of Kentucky  
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### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated April 15, 2015 on our consideration of Butler County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations included herein, which discusses the following report comments:

- 2014-001 The Butler County Fiscal Court Has A Lack Of Segregation Of Duties Over Receipts
- 2014-002 The Butler County Jail Has A Lack Of Segregation Of Duties Over Jail Commissary And Inmate Accounts

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", with a long horizontal flourish extending to the right.

Mike Harmon  
Auditor of Public Accounts

April 15, 2015

BUTLER COUNTY OFFICIALS

For The Year Ended June 30, 2014

**Fiscal Court Members:**

David Fields	County Judge/Executive
Stevie Givens	Magistrate
Johnny Tuck	Magistrate
Chad Tyree	Magistrate
David Whittinghill	Magistrate
Keith Daugherty	Magistrate

**Other Elected Officials:**

Richard Deye	County Attorney
Terry Fugate	Jailer
Shirley Givens	County Clerk
Melissa Cardwell	Circuit Court Clerk
Scottie Ward	Sheriff
Angela Pendley	Property Valuation Administrator
Marty Jones	Coroner

**Appointed Personnel:**

Susan Johnson	County Treasurer
Kim West	Finance Officer

**BUTLER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**



**BUTLER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**

**For The Year Ended June 30, 2014**

	<b>Budgeted Funds</b>		
	<b>General Fund</b>	<b>Road Fund</b>	<b>Jail Fund</b>
<b>RECEIPTS</b>			
Taxes	\$ 1,445,940	\$	\$
In Lieu Tax Payments	129,466		
Excess Fees	183,182		
Licenses and Permits	3,867		
Intergovernmental	262,921	2,061,666	411,805
Charges for Services	3,561		85,376
Miscellaneous	83,895	48,261	35,607
Interest	6,667	5,640	
Total Receipts	<u>2,119,499</u>	<u>2,115,567</u>	<u>532,788</u>
<b>DISBURSEMENTS</b>			
General Government	777,427		
Protection to Persons and Property	99,487		604,458
General Health and Sanitation	223,291		
Social Services	48,973		
Recreation and Culture	41,719		
Roads		1,428,990	
Other Transportation Facilities and Services			
Debt Service	28,638	80,157	
Capital Projects		750	
Administration	532,323	281,291	212,704
Total Disbursements	<u>1,751,858</u>	<u>1,791,188</u>	<u>817,162</u>
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	<u>367,641</u>	<u>324,379</u>	<u>(284,374)</u>
<b>Other Adjustments to Cash (Uses)</b>			
Borrowed Money	56,759	94,429	
Payroll Revolving Account	18,027		
Transfers From Other Funds	128,000	2,777	310,000
Transfers To Other Funds	(310,000)	(128,000)	
Total Other Adjustments to Cash (Uses)	<u>(107,214)</u>	<u>(30,794)</u>	<u>310,000</u>
Net Change in Fund Balance	260,427	293,585	25,626
Fund Balance - Beginning	1,203,789	757,049	57,029
Fund Balance - Ending	<u>\$ 1,464,216</u>	<u>\$ 1,050,634</u>	<u>\$ 82,655</u>
<b>Composition of Fund Balance</b>			
Bank Balance	1,098,747	1,081,187	83,309
Plus: Deposits In Transit			
Less: Outstanding Checks	(34,531)	(30,553)	(654)
Certificates of Deposit	400,000		
Fund Balance - Ending	<u>\$ 1,464,216</u>	<u>\$ 1,050,634</u>	<u>\$ 82,655</u>

The accompanying notes are an integral part of the financial statement.

**BUTLER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>Budgeted Funds</b>		
<b>Local Government Economic Assistance Fund</b>	<b>Rochester Ferry Fund</b>	<b>Reeds Ferry Fund</b>
\$	\$	\$
34,851	164,880	158,640
	2,434	11,272
<u>34,851</u>	<u>167,314</u>	<u>169,912</u>
25,056		
	71,646	72,287
	31,186	36,630
<u>25,056</u>	<u>102,832</u>	<u>108,917</u>
<u>9,795</u>	<u>64,482</u>	<u>60,995</u>
	(2,777)	
	(2,777)	
9,795	61,705	60,995
11,422	69,770	85,968
<u>\$ 21,217</u>	<u>\$ 131,475</u>	<u>\$ 146,963</u>
21,217	131,530	147,043
	(55)	(80)
<u>\$ 21,217</u>	<u>\$ 131,475</u>	<u>\$ 146,963</u>

The accompanying notes are an integral part of the financial statement.

**BUTLER COUNTY**  
**STATEMENT OF RECEIPTS, DISBURSEMENTS, AND CHANGES**  
**IN FUND BALANCES - REGULATORY BASIS**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	<b>Unbudgeted Funds</b>			
	<b>Public Properties Corporation Fund</b>	<b>Debt Service Fund</b>	<b>Jail Commissary Fund</b>	<b>Total Funds</b>
<b>RECEIPTS</b>				
Taxes	\$	\$	\$	\$ 1,445,940
In Lieu Tax Payments				129,466
Excess Fees				183,182
Licenses and Permits				3,867
Intergovernmental		47,681	1,348	3,143,792
Charges for Services				88,937
Miscellaneous			53,614	235,083
Interest				12,307
Total Receipts		47,681	54,962	5,242,574
<b>DISBURSEMENTS</b>				
General Government				777,427
Protection to Persons and Property				729,001
General Health and Sanitation				223,291
Social Services				48,973
Recreation and Culture			62,460	104,179
Roads				1,428,990
Other Transportation Facilities and Services				143,933
Debt Service		44,486		153,281
Capital Projects				750
Administration	80			1,094,214
Total Disbursements	80	44,486	62,460	4,704,039
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(80)	3,195	(7,498)	538,535
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money				151,188
Payroll Revolving Account				18,027
Transfers From Other Funds				440,777
Transfers To Other Funds				(440,777)
Total Other Adjustments to Cash (Uses)				169,215
Net Change in Fund Balance	(80)	3,195	(7,498)	707,750
Fund Balance - Beginning	4,433	26,637	19,415	2,235,512
Fund Balance - Ending	\$ 4,353	\$ 29,832	\$ 11,917	\$ 2,943,262
<b>Composition of Fund Balance</b>				
Bank Balance	\$ 4,353	\$ 29,832	\$ 12,090	\$ 2,609,308
Deposits In Transit			26	26
Less Outstanding Checks			(199)	(66,072)
Certificates of Deposit				400,000
Ending Fund Balance	\$ 4,353	\$ 29,832	\$ 11,917	\$ 2,943,262

The accompanying notes are an integral part of the financial statement.

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**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**

**June 30, 2014**

**Note 1. Summary of Significant Accounting Policies**

**A. Reporting Entity**

The financial statement of Butler County includes all budgeted and unbudgeted funds under the control of the Butler County Fiscal Court. Budgeted funds included within the reporting entity are those funds presented in the county's approved annual budget and reported on the quarterly reports submitted to the Department for Local Government. Unbudgeted funds may include non-fiduciary financial activities that are within the county's control. Unbudgeted funds may also include any corporation to act as the fiscal court in the acquisition and financing of any public project which may be undertaken by the fiscal court pursuant to the provisions of Kentucky law and thus accomplish a public purpose of the fiscal court. The unbudgeted funds are not presented in the annual approved budget or in the quarterly reports submitted to the Department for Local Government.

**B. Basis of Accounting**

The financial statement is presented on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board. This basis of accounting involves the reporting of fund balances and the changes therein resulting from cash inflows (cash receipts) and cash outflows (cash disbursements) to meet the financial reporting requirements of the Department for Local Government and the laws of the Commonwealth of Kentucky.

This regulatory basis of accounting differs from GAAP primarily because the financial statement format does not include the GAAP presentations of government-wide and fund financial statements, cash receipts are recognized when received in cash rather than when earned and susceptible to accrual, and cash disbursements are recognized when paid rather than when incurred or subject to accrual.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 31, delinquent January 1 following the assessment, and subject to sale ninety days following April 15.

**C. Basis of Presentation**

**Budgeted Funds**

The fiscal court reports the following budgeted funds:

General Fund - This is the primary operating fund of the fiscal court. It accounts for all financial resources of the general government, except where the Department for Local Government requires a separate fund or where management requires that a separate fund be used for some function.

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**C. Basis of Presentation (Continued)**

Road Fund - This fund is for road and bridge construction and repair. The primary sources of receipts for this fund are state payments for truck licenses distribution, municipal road aid, and transportation grants. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Jail Fund - The primary purpose of this fund is to account for the jail expenses of the county. The primary sources of receipts for this fund are reimbursements from the state and federal government, payments from other counties for housing prisoners, and transfers from the General Fund. The Department for Local Government requires the fiscal court to maintain these receipts and disbursements separately from the General Fund.

Local Government Economic Assistance Fund - The primary purpose of this fund is to account for grants and related disbursements. The primary sources of receipts for this fund are grants from the state and federal governments.

Rochester Ferry Fund - The primary purpose of this fund is to account for the expenses of Rochester Ferry. The primary source of receipts is state payments received from the Transportation Cabinet.

Reeds Ferry Fund - The primary purpose of this fund is to account for the expenses of Reeds Ferry. The primary source of receipts is state payments received from the Transportation Cabinet.

**Unbudgeted Funds**

The fiscal court reports the following unbudgeted funds:

Public Properties Corporation Fund - The purpose of this fund is to account for debt service requirements of debt issued for the purchase of the land. The Department for Local Government does not require the fiscal court to report or budget these funds.

Debt Service Fund - The purpose of this fund is to account for debt service requirements of debt issued for courthouse renovations. The Department for Local Government does not require the fiscal court to report or budget these funds.

Jail Commissary Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit and to enhance the well-being of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Commissary Fund.

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by the Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursement to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the Butler County Jail Commissary Fund to be budgeted because the fiscal court does not approve the expenses of this fund.

The State Local Finance Officer does not require the Public Facilities Construction Corporation Fund or the Debt Service Fund to be budgeted. Bond indentures and other relevant contractual provisions require specific payments to and from these funds annually.

**E. Butler County Elected Officials**

Kentucky law provides for election of the officials below from the geographic area constituting Butler County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statement of Butler County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**F. Deposits and Investments**

The government's fund balance is considered to be cash on hand, demand deposits, certificates of deposit, and short-term investments with original maturities of three months or less from the date of acquisition. The government's fund balance includes cash and cash equivalents and investments.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

The fund financial statement recognizes bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest are reported as disbursements. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as disbursements. Debt proceeds are reported as other adjustments to cash.

**Note 2. Deposits**

The fiscal court maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the fiscal court and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The government does not have a deposit policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2014, all deposits were covered by FDIC insurance or a properly executed collateral security agreement. However, as of August 31, 2013, public funds were exposed to custodial credit risk because the bank did not adequately collateralize the fiscal court's deposits in accordance with the security agreement.

- Uncollateralized and Uninsured \$267,465

**Note 3. Transfers**

The table below shows the interfund operating transfers for fiscal year 2014.

	General Fund	Road Fund	Rochester Ferry Fund	Total Transfers In
General Fund	\$	\$ 128,000	\$	\$ 128,000
Road Fund			2,777	2,777
Jail Fund	310,000			310,000
Total Transfers Out	\$ 310,000	\$ 128,000	\$ 2,777	\$ 440,777

**Reason for transfers:**

To move resources from and to the General Fund and other funds, for budgetary purposes, to the funds that will expend them. Also to move resources from the Road Fund to the General Fund for administrative costs per the Road Fund Cost Allocation Worksheet.

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 4. Long-term Debt**

**A. Courthouse Renovations**

On September 24, 1997, the Butler County Fiscal Court entered into an agreement with the Kentucky Association of Counties Leasing Trust (KACoLT). The agreement was for the renovation and expansion of the Butler County Courthouse. The principal was \$638,000 at a rate of 4.83% interest for a period of 20 years, interest paid monthly, and principal paid annually. Principal outstanding as of June 30, 2014 was \$145,000. Future payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 45,000	\$ 3,096
2016	48,000	2,330
2017	52,000	1,027
Totals	<u>\$ 145,000</u>	<u>\$ 6,453</u>

**B. Sheriff Truck**

On November 14, 2011, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$27,366 at a rate of 4.38% interest for a period of 36 months, with interest and principal due in annual installments of \$7,769. Principal outstanding at June 30, 2014 was \$7,656. Future payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 7,656	\$ 113
Totals	<u>\$ 7,656</u>	<u>\$ 113</u>

**C. Land**

On December 22, 2011, the Butler County Fiscal Court and the City of Morgantown entered into a joint agreement with individuals for the purchase of land for \$500,000. The agreement was for the development of industrial property. Butler County Fiscal Court paid \$25,000 as a down payment and agreed to pay the individuals \$225,000 at a rate of 5% interest for a period of ten years, with interest and principal paid monthly. Principal outstanding at June 30, 2014 was \$178,800. Future payment requirements are:

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**C. Land (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 20,155	\$ 8,482
2016	21,187	7,451
2017	22,271	6,367
2018	23,410	5,228
2019	24,608	4,030
2020-2022	67,169	4,425
Totals	<u>\$ 178,800</u>	<u>\$ 35,983</u>

**D. John Deere Tractor/Mower**

On August 8, 2011, the Butler County Fiscal Court entered into an agreement with John Deere Credit for the purchase of a John Deere Tractor/Mower for the Road Department. The principal was \$111,327 at a rate of 3.55% interest for a period of 60 months, with interest and principal due in August. Principal outstanding at June 30, 2014 was \$46,635. Future payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 22,904	\$ 967
2016	23,730	141
2017	1	
Totals	<u>\$ 46,635</u>	<u>\$ 1,108</u>

**E. Road Grader**

On February 24, 2012, the Butler County Fiscal Court entered into an agreement with Caterpillar Financial Services Corporation for the purchase of a Road Grader for the Road Department. The principal was \$171,340 at a rate of 3.20% interest for a period of 60 months, with interest and principal due in February. Principal outstanding at June 30, 2014 was \$70,126. Future payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 34,510	\$ 1,949
2016	35,615	845
2017	1	1
Totals	<u>\$ 70,126</u>	<u>\$ 2,795</u>

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**F. Backhoe**

On July 25, 2013, the Butler County Fiscal Court entered into an agreement with Caterpillar Financial Services Corporation for the purchase of a Backhoe for the Road Department. The principal was \$94,429 at a rate of 2.49% interest for a period of 60 months, with interest and principal due in July. Principal outstanding at June 30, 2014 was \$76,335. Future payment requirements are:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 18,385	\$ 1,440
2016	18,843	983
2017	19,313	513
2018	<u>19,794</u>	<u>33</u>
Totals	<u>\$ 76,335</u>	<u>\$ 2,969</u>

**G. Truck**

On June 10, 2014, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$29,581 at a rate of 3.89% interest for a period of 48 months, with interest and principal due in annual installments of \$7,833. Principal outstanding at June 30, 2014 was \$21,819. Future payment requirements are:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2015	\$ 6,992	\$ 841
2016	7,269	563
2017	<u>7,558</u>	<u>275</u>
Totals	<u>\$ 21,819</u>	<u>\$ 1,679</u>

**H. Truck**

On September 19, 2013, the Butler County Fiscal Court entered into an agreement with Magnolia Bank. The agreement was for the purchase of a truck for the Sheriff's department. The principal was \$27,178 at a rate of 4.30% interest for a period of 48 months, with interest and principal due in annual installments of \$7,230. Principal outstanding at June 30, 2014 was \$14,063. Future payment requirements are:

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**H. Truck (Continued)**

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Scheduled Interest</u>
2016	\$ 6,883	\$ 347
2017	<u>7,180</u>	<u>51</u>
Totals	<u>\$ 14,063</u>	<u>\$ 398</u>

**I. Changes In Long-term Debt**

Long-term Debt activity for the year ended June 30, 2014, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Financing Obligations	\$ 573,267	\$ 151,188	\$ 164,021	\$ 560,434	\$ 155,602
Total Long-term Debt	<u>\$ 573,267</u>	<u>\$ 151,188</u>	<u>\$ 164,021</u>	<u>\$ 560,434</u>	<u>\$ 155,602</u>

**Note 5. Commitments and Contingencies**

The County is involved in multiple lawsuits that arose from the normal course of doing business. While individually they may not be significant, in the aggregate, they could negatively impact the county's financial position. Due to the uncertainty of the litigation, a reasonable estimate of the financial impact on the county cannot be made at this time.

**Note 6. Employee Retirement System**

The fiscal court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability and death benefits to plan members. Benefit contributions and provisions are established by statute.

Nonhazardous covered employees are required to contribute five percent of their salary to the plan. Nonhazardous covered employees who begin participation on or after September 1, 2008 are required to contribute six percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 18.89 percent.

The county's contribution for FY 2012 was \$297,740, FY 2013 was \$302,085, and FY 2014 was \$316,352.



**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 6. Employee Retirement System (Continued)**

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Nonhazardous employees who begin participation on or after September 1, 2008 must meet the rule of 87 (members age plus years of service credit must equal 87, and the member must be a minimum of 57 years of age) or the member is age 65, with a minimum of 60 months service credit.

CERS also provides post retirement health care coverage as follows:

For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<b>Years of Service</b>	<b>% paid by Insurance Fund</b>	<b>% Paid by Member through Payroll Deduction</b>
20 or more	100%	0%
15-19	75%	25%
10-14	50%	50%
4-9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began participation on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003, earn ten dollars per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, KY 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Deferred Compensation**

The Butler County Fiscal Court voted to allow all eligible employees to participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate.

These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, KY 40601-8862, or by telephone at (502) 573-7925.

**BUTLER COUNTY**  
**NOTES TO FINANCIAL STATEMENT**  
**June 30, 2014**  
**(Continued)**

**Note 8. Health Reimbursement Account/Flexible Spending Account**

The Butler County Fiscal Court established a flexible spending account on April 22, 2009, to provide employees an additional health benefit. The County has contracted with Febco. Inc., a third-party administrator, to administer the plan. The plan provides a debit card to each eligible employee providing an amount based on health insurance selected by the employee each year to pay for qualified medical expenses. Employees may also contribute additional pre-tax funds through payroll deduction.

**Note 9. Insurance**

For the fiscal year ended June 30, 2014, Butler County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**Note 10. Payroll Revolving Account**

The reconciled balance of the Payroll Revolving Account as of June 30, 2014, was added to the General Fund cash balance for financing reporting purposes. The balance added was \$18,027.

**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**



**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**

	<b>GENERAL FUND</b>			
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Taxes	\$ 1,197,000	\$ 1,197,000	\$ 1,445,940	\$ 248,940
In Lieu Tax Payments	140,000	140,000	129,466	(10,534)
Excess Fees	90,000	90,000	183,182	93,182
Licenses and Permits	3,800	3,800	3,867	67
Intergovernmental	247,393	322,193	262,921	(59,272)
Charges for Services	500	500	3,561	3,061
Miscellaneous	14,500	14,500	83,895	69,395
Interest	5,000	5,000	6,667	1,667
Total Receipts	1,698,193	1,772,993	2,119,499	346,506
<b>DISBURSEMENTS</b>				
General Government	795,822	795,822	777,427	18,395
Protection to Persons and Property	159,700	159,700	99,487	60,213
General Health and Sanitation	255,887	255,887	223,291	32,596
Social Services	54,200	54,200	48,973	5,227
Recreation and Culture	9,900	159,500	41,719	117,781
Debt Service	37,425	37,425	28,638	8,787
Administration	561,917	561,661	532,323	29,338
Total Disbursements	1,874,851	2,024,195	1,751,858	272,337
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(176,658)	(251,202)	367,641	618,843
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money			56,759	56,759
Transfers From Other Funds	128,000	128,000	128,000	
Transfers To Other Funds	(437,578)	(437,578)	(310,000)	127,578
Total Other Adjustments to Cash (Uses)	(309,578)	(309,578)	(125,241)	184,337
Net Change in Fund Balance	(486,236)	(560,780)	242,400	803,180
Fund Balance Beginning	486,236	561,036	1,203,789	642,753
Fund Balance - Ending	\$ 0	\$ 256	\$ 1,446,189	\$ 1,445,933

**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

	ROAD FUND			
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 1,728,695	\$ 2,148,695	\$ 2,061,666	\$ (87,029)
Miscellaneous			48,261	48,261
Interest	3,500	3,500	5,640	2,140
Total Receipts	1,732,195	2,152,195	2,115,567	(36,628)
<b>DISBURSEMENTS</b>				
Roads	1,245,332	1,745,332	1,428,990	316,342
Debt Service	60,331	80,157	80,157	
Capital Projects	35,000	35,000	750	34,250
Administration	326,250	326,250	281,291	44,959
Total Disbursements	1,666,913	2,186,739	1,791,188	395,551
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	65,282	(34,544)	324,379	358,923
<b>Other Adjustments to Cash (Uses)</b>				
Borrowed Money			94,429	94,429
Transfers From Other Funds			2,777	2,777
Transfers To Other Funds	(128,000)	(128,000)	(128,000)	
Total Other Adjustments to Cash (Uses)	(128,000)	(128,000)	(30,794)	97,206
Net Change in Fund Balance	(62,718)	(162,544)	293,585	456,129
Fund Balance Beginning	62,718	162,544	757,049	594,505
Fund Balance - Ending	\$ 0	\$ 0	\$ 1,050,634	\$ 1,050,634

**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>JAIL FUND</b>				
	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts, (Budgetary Basis)	Final Budget Positive (Negative)
<b>RECEIPTS</b>				
Intergovernmental	\$ 323,740	\$ 323,740	\$ 411,805	\$ 88,065
Charges for Services	84,072	84,072	85,376	1,304
Miscellaneous	22,000	22,000	35,607	13,607
Total Receipts	429,812	429,812	532,788	102,976
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	629,250	629,250	604,458	24,792
Administration	238,140	238,140	212,704	25,436
Total Disbursements	867,390	867,390	817,162	50,228
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)	(437,578)	(437,578)	(284,374)	153,204
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds	437,578	437,578	310,000	(127,578)
Total Other Adjustments to Cash (Uses)	437,578	437,578	310,000	(127,578)
Net Change in Fund Balance			25,626	25,626
Fund Balance Beginning			57,029	57,029
Fund Balance - Ending	\$ 0	\$ 0	\$ 82,655	\$ 82,655

**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

**LOCAL GOVERNMENT ECONOMIC ASSISTANCE FUND**

	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 25,000	\$ 25,000	\$ 34,851	\$ 9,851
Total Receipts	25,000	25,000	34,851	9,851
<b>DISBURSEMENTS</b>				
Protection to Persons and Property	25,000	25,256	25,056	200
Total Disbursements	25,000	25,256	25,056	200
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)		(256)	9,795	10,051
Net Change in Fund Balance		(256)	9,795	10,051
Fund Balance Beginning			11,422	11,422
Fund Balance - Ending	\$ 0	\$ (256)	\$ 21,217	\$ 21,473



**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>ROCHESTER FERRY FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 157,000	\$ 157,000	\$ 164,880	\$ 7,880
Miscellaneous			2,434	2,434
Total Receipts	157,000	157,000	167,314	10,314
<b>DISBURSEMENTS</b>				
Other Transportation Facilities and Services	83,600	83,600	71,646	11,954
Administration	73,400	73,400	31,186	42,214
Total Disbursements	157,000	157,000	102,832	54,168
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			64,482	64,482
<b>Other Adjustments to Cash (Uses)</b>				
Transfers From Other Funds			(2,777)	(2,777)
Total Other Adjustments to Cash (Uses)			(2,777)	(2,777)
Net Change in Fund Balance			61,705	61,705
Fund Balance Beginning			69,770	69,770
Fund Balance - Ending	\$ 0	\$ 0	\$ 131,475	\$ 131,475

**BUTLER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**  
**(Continued)**

<b>REEDS FERRY FUND</b>				
	Budgeted Amounts		Actual Amounts, (Budgetary Basis)	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>RECEIPTS</b>				
Intergovernmental	\$ 157,000	\$ 157,000	\$ 158,640	\$ 1,640
Miscellaneous			11,272	11,272
Total Receipts	157,000	157,000	169,912	12,912
<b>DISBURSEMENTS</b>				
Other Transportation Facilities and Services	88,950	88,950	72,287	16,663
Administration	68,050	68,050	36,630	31,420
Total Disbursements	157,000	157,000	108,917	48,083
Excess (Deficiency) of Receipts Over Disbursements Before Other Adjustments to Cash (Uses)			60,995	60,995
Net Change in Fund Balance			60,995	60,995
Fund Balance Beginning			85,968	85,968
Fund Balance - Ending	\$ 0	\$ 0	\$ 146,963	\$ 146,963

**BUTLER COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - BUDGETARY COMPARISON SCHEDULES**

**June 30, 2014**

**Note 1. Budgetary Information**

Annual budgets are adopted on a regulatory basis of accounting, which is a basis of accounting other than accounting principles generally accepted in the United States of America (GAAP) as established by Government Accounting Standards Board and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed disbursements to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Disbursements may not exceed budgeted appropriations at the activity level.

**Note 2. Reconciliation of the General Fund**

The *Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis* differs from the *Budgetary Comparison Schedule* for the General Fund for cash balances and cash equivalents – ending by \$18,027 due to the payroll revolving account balance.

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**BUTLER COUNTY**  
**SUPPLEMENTARY SCHEDULE**  
**Supplementary Information - Regulatory Basis**  
**For The Year Ended June 30, 2014**



**BUTLER COUNTY**  
**SCHEDULE OF CAPITAL ASSETS**  
**Supplementary Information - Regulatory Basis**

**For The Year Ended June 30, 2014**

The fiscal court reports the following schedule of capital assets:

	Beginning Balance	Additions	Deletions	Ending Balance
	(Restated)			
Land and Land Improvements	\$ 521,283	\$	\$	\$ 521,283
Buildings and Building Improvement	1,773,802			1,773,802
Other Equipment	1,375,867	154,399		1,530,266
Vehicles and Equipment	573,476	84,928		658,404
Infrastructure	4,049,561	378,905		4,428,466
	<u>\$ 8,293,989</u>	<u>\$ 618,232</u>	<u>\$ 0</u>	<u>\$ 8,912,221</u>
Total Capital Assets				

**BUTLER COUNTY**  
**NOTES TO REGULATORY SUPPLEMENTARY**  
**INFORMATION - SCHEDULE OF CAPITAL ASSETS**

**June 30, 2014**

**Note 1. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported as other information. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

	Capitalization Threshold	Useful Life (Years)
Land Improvements	\$ 12,500	10-60
Buildings and Building Improvements	\$ 25,000	10-75
Machinery & Improvements	\$ 5,000	3-25
Vehicles	\$ 5,000	3-25
Infrastructure	\$ 10,000	10-50

**Note 2. Restatement of Beginning Balance**

Vehicles and equipment beginning balance was restated by \$26,500 for equipment that was deleted in error in the prior year.



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**





**MIKE HARMON**  
**AUDITOR OF PUBLIC ACCOUNTS**

The Honorable David Fields, Butler County Judge/Executive  
Members of the Butler County Fiscal Court

**Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards**

**Independent Auditor's Report**

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the Statement of Receipts, Disbursements, and Changes in Fund Balances - Regulatory Basis of the Butler County Fiscal Court for the fiscal year ended June 30, 2014, and the related notes to the financial statement and have issued our report thereon dated April 15, 2015. The Fiscal Court's financial statement is prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a special purpose framework.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statement, we considered the Butler County Fiscal Court's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the Butler County Fiscal Court's internal control. Accordingly, we do not express an opinion on the effectiveness of the Butler County Fiscal Court's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying comments and recommendations, we identified a certain deficiency in internal control that we consider to be material weakness and another deficiency that we consider to be a significant deficiency.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statement will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying comments and recommendations as item 2014-002 to be a material weakness.



Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

**Internal Control Over Financial Reporting (Continued)**

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying comments and recommendations as item 2014-001 to be a significant deficiency.

**Compliance And Other Matters**

As part of obtaining reasonable assurance about whether the Butler County Fiscal Court's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

**Jailer's Response to Finding**

The Butler County Jailer's response to the finding identified in our audit is described in the accompanying comment and recommendation. The Jailer's response was not subjected to the auditing procedures applied in the audit of the financial statement and, accordingly, we express no opinion on it.

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Mike Harmon", followed by a horizontal line extending to the right.

Mike Harmon  
Auditor of Public Accounts

April 15, 2015

**BUTLER COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2014**



**BUTLER COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**Fiscal Year Ended June 30, 2014**

**INTERNAL CONTROL - SIGNIFICANT DEFICIENCY:**

**2014-001    The Butler County Fiscal Court Has A Lack Of Segregation Of Duties Over Receipts**

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Good internal controls include a segregation of duties over the accounting functions involving receipts. The County Treasurer deposits the receipts and posts transactions into the accounting system. The County Treasurer also prepares reports for submission to the Department for Local Government and prepares other necessary financial documentation. There were no documented compensating controls to offset the lack of segregation of duties that would reduce the deficiency to less than significant level.

Lack of segregation of duties could result in undetected misappropriation of assets and/or inaccurate financial reporting to external agencies such as the Department for Local Government. In addition, too much control by one individual without oversight can lead to fraud that could go undetected.

We recommend that the County divide the responsibilities for receipts among the County Treasurer, Finance Officer, and other County employees in order to achieve an appropriate level of segregation of duties or implement compensating controls over these areas.

*Judge/Executive's Response: The official did not respond.*

**INTERNAL CONTROL - MATERIAL WEAKNESS:**

**2014-002    The Butler County Jail Has A Lack Of Segregation Of Duties Over Jail Commissary And Inmate Accounts**

---

The bookkeeper for the Jail Commissary prepares deposits, prepares daily checkout sheets, and posts to the receipts ledger. In addition, the bookkeeper prepares monthly collection and disbursement reports, writes and signs checks, posts to the disbursements ledger, and prepares the monthly bank reconciliations. The Jailer or another individual did not document oversight of any of these activities.

Lack of oversight could result in undetected misappropriation of assets and/or inaccurate financial reporting. The Jailer should offset the lack of adequate segregation of duties by implementing compensating controls such as periodically performing surprise cash counts, reviewing the bank reconciliations, and comparing the daily deposits to the daily checkouts and the receipts ledger, reconciling any differences. In addition, the Jailer should compare the monthly reports to the receipts and disbursements ledgers for accuracy. Initialing and dating the bank reconciliations, bank deposits, daily checkout sheets, receipts and disbursements ledgers, and reports can document this review.

*Jailer's Response: Small facility will work on getting someone to assist on duties.*





**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**BUTLER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2014**



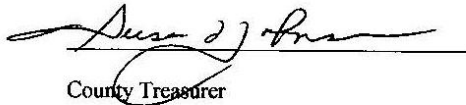
CERTIFICATION OF COMPLIANCE  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE  
BUTLER COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2014

The Butler County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

A handwritten signature in black ink, appearing to read "David L. Smith", written over a horizontal line.

County Judge/Executive

A handwritten signature in black ink, appearing to read "Susan J. Brown", written over a horizontal line.

County Treasurer

